

21st century retirement



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People who save through employer-sponsored plans are more likely to feel prepared for retirement than those who do not, according to the results of the 22nd annual EBRI Retirement Confidence survey in 2012 sponsored by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates.

Slightly more than 1,250 U.S. adults, including 1,003 workers and 259 retirees, were asked about their attitudes regarding retirement, their preparations for retirement, their confidence regarding various aspects of retirement, and related issues. The study of Americans’ confidence in their ability to retire comfortably revealed that only 14% of respondents say they are very confident they will have enough money to live comfortably in retirement (a level that is statistically equivalent to the record low of 13% measured in 2011 and 2009), 38% are somewhat confident, 24% are not too confident, and 23% are not at all confident.

When asked to identify top financial concerns, 42% of respondents cite job uncertainty. Only 28% of workers report being very confident that they will have paid employment for as long as they need, and almost two-thirds (62%) consider their current level of debt to be a problem. While 16% are very confident that their investments will grow in value.

The survey revealed that many American households have virtually no savings and investments, with 60% reporting that the total value of their household savings and investments, excluding the value of their primary home and any defined benefit plans, is less than \$25,000; and 30% with less than \$1,000 in savings. However, of those workers with access to an employer-sponsored retirement savings plan, such as a 401(k), 81% who are eligible to contribute, are currently doing so. Also, those who are currently contributing to an employer-sponsored plan (38%) are more than twice as likely to have savings and investments of at least \$50,000, compared with those who report not contributing to a workplace retirement plan.

One-quarter (25%) of workers polled say the age at which they expect to retire has changed in the past year, with 37% expecting to retire after age 65, compared with just 11% of respondents in the 1991 survey. The findings

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“Homing In” On Your Retirement Destination

As you think about your “golden years,” where do you imagine yourself living? Would you choose an affordable house on a lake with room for visiting grandchildren or a condo near a golf course? Would you like to live closer to family and friends, or expand your horizons by moving to a new setting? What’s important to you: a moderate climate, recreational opportunities, accessible medical



facilities, a modest cost of living, or favorable local tax rates?

These, along with many other factors, can help you choose a retirement destination that will meet your personal and financial needs. Familiarize yourself with the advantages and disadvantages of potential retirement destinations. When it comes time to retire, you will be better prepared to make a well-informed decision. ■

Rules of the Road for Taking an Early Retirement

Have you ever entertained thoughts of taking an early retirement? Suppose you’re age 55 and could take home a pension income that amounted to 60% of your pay if you retire now. If your income is high, it may seem that you would be able to retire in reasonable comfort. However, before calling it quits, weigh all of the facts *carefully* to be sure an early retirement makes financial sense for you. Here are eight rules to consider if you’re thinking about taking an early retirement:

Rule #1: Weigh the pros and cons of retiring now or in the future. Retiring at age 55 with, hypothetically, 60% of your income may seem like a good deal at first. But if you wait until full retirement age, you will have another 10 years of full earnings under your belt, along with any pay increases from promotions, merit raises, and inflation. This will provide you with more money to save for retirement, and ultimately, it may boost your Social Security and pension benefits.

Also, if you consider the difference in the percentage you will receive now and in 10 years—for example, 60% if you retire now versus 80% if you retire in 10 years—retiring now may not seem as attractive.

Rule #2: Remember to factor inflation into your decision. If you think you could manage on 60% of your income, remember that inflation will erode your pension. If you retire today and let’s say you receive a pension income of \$1,600 per month for life, in 20 years at a 4% rate of inflation, you’ll have the equivalent of \$707 in today’s dollars.

Rule #3: Prepare for longevity. The longer you live, the more money you’ll need in retirement. Due to increased longevity, an early retirement plan must include a budget to meet the financial needs of several decades beyond the normal retirement age of 65.

Rule #4: Evaluate other retirement income resources. If you already have a sizable nest egg, or if

you expect to collect a pension from a previous employer, the amount of your *current* employer-sponsored retirement plan may not be as robust. If so, perhaps you can exit the labor force earlier because you have other sources of retirement income.

However, don’t expect **Social Security** to provide most of your retirement income. The Social Security Administration (SSA) projects that benefits will replace about 40% of the average worker’s pre-retirement income and retirees may need 70% or more of pre-retirement earnings to live comfortably (SSA, 2012). Also, since the future of Social Security and **Medicare** is uncertain, you may have to provide more funds for future health care expenses.

Rule #5: Part-time work. If you decide to leave your present job, will you be securing employment elsewhere until you permanently retire and start collecting your pension? Keep in mind that it may be difficult to find another equally

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Divorce and Retirement Plan Proceeds

Divorce can be “taxing” enough, but it need not be made more difficult by the mismanagement of the division of assets in a retirement plan. As more Americans participate in 401(k) plans and other defined contribution retirement plans, dividing vested retirement plan assets in divorce situations can be complicated. In addition, defined benefit plans can involve numerous concerns, such as the participant’s death before retirement, and the form of the benefit payments at retirement.

A Qualified Domestic Relations Order (QDRO) is a legal document

that enables a retirement plan to transfer money or other plan assets to the non-employee former spouse. A QDRO must meet very specific requirements of the Internal Revenue Service (IRS) and the Employee Retirement Income Security Act of 1974 (ERISA). Note that without a QDRO, a transfer of retirement plan assets cannot occur.

Entitlement to your spouse’s retirement plan benefits depends on the type of plan. For a defined contribution plan, whereby each plan participant has his or her own individual account, a former spouse may be entitled to 50% of the vested

and non-vested benefits that were credited or accrued during your marriage. Depending on the type of defined benefit plan, you can receive a portion of the retirement benefit based on the amount of time of your marriage during plan participation and the total amount of time the employee former spouse participates in the plan through retirement.

Since many issues need to be thoroughly discussed regarding divorce and retirement plan benefits, be sure to consult your tax and legal professionals for guidance about your unique circumstances. ■

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high-paying position. Although the prospect of part-time work may make it possible to consider an early retirement option, be sure you can depend on a reduced part-time income until full retirement.

Rule #6: Be aware of the early retirement impact on Social Security benefits. If you are under full retirement age and continue working after you begin collecting Social Security benefits, you may have to “give back” a portion of your benefits. In addition, if you continue working after you begin collecting Social Security, a portion of your Social Security benefits might be taxed. The calculation to determine how much of your benefits will be included in your gross taxable income can be estimated online at the SSA’s website at www.ssa.gov.

Rule #7: Taking an early retirement before layoffs occur. Is there a chance your company will lay you off if you do not elect to leave on your own? Many companies now lay off high earners as part of their cost-cutting measures. If your company is experiencing financial difficulties and downsizing appears imminent, you may get a better deal through early retirement than through the company’s severance package.

Rule #8: Understand the potential tax consequences of early retirement. If you opt for early retirement, in some cases you may incur a 10% Federal income tax penalty for early withdrawals from

a qualified plan. Keep in mind that withdrawals taken from an **Individual Retirement Account (IRA)** before age 59½ may also be subject to a penalty.

Early retirement may be a long-held dream and a financial possibility. But, before calling it quits, assess your situation carefully. You will have to live with the effects of your choice for the rest of your life. Take the time now to make sure it will be a smart decision in the long run. ■



employer-sponsored plans: helping americans prepare for retirement

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also indicated that confidence among workers in having enough savings to pay for medical and long-term care expenses in retirement remains well below their confidence levels for paying basic expenses: 26% of workers and 32% of retirees are very confident about having enough money to pay for basic expenses. However, 13% of workers and 24% of retirees are very confident about paying for medical expenses after retirement, while only 9% of workers and 18% of retirees report being very confident about having the necessary means to cover the cost of long-term care in retirement.

Although 56% of workers surveyed expect to receive retirement benefits from a defined benefit plan, only 33% report that they and/or their spouse currently have a traditional pension plan with a current or previous employer. Further, more than half (56%) admit that they and/or their spouse have not tried to calculate how much money they will need to save to live comfortably in retirement. Two-thirds (66%) say they and/or their spouses have saved for retirement, a continuing decline from the three-quarters (75%) measured in 2009. Some 58% say they and/or their spouse are currently saving, down from 65% in 2009. Researchers noted, however, that these decreases are concentrated

primarily among workers with household incomes under \$35,000.

When asked to evaluate their progress in retirement planning and saving, 67% say they are a little or a lot behind schedule. While this figure was unchanged from 2011, researchers observed that it is 12% higher than the 55% of workers in 2005 who said they felt behind schedule.



Meanwhile, half of the current retirees surveyed say they left the workforce unexpectedly due to health problems, disability, or changes at their employer, such as downsizing or company closure. Retired respondents expressed higher levels of confidence than current workers about several key financial aspects of retirement, and that they are significantly more reliant on Social Security as a major source of their retirement income than current workers expect to be.

The survey also asked respondents about their use of technology in managing their finances and saving for retirement. Results showed

that 41% of both workers and retirees feel very comfortable using online technologies to perform various tasks related to financial management, while only 19% say they are very comfortable purchasing financial products online, and just 10% say they are comfortable obtaining advice from financial professionals online. In addition, relatively few respondents report using mobile devices, such as a smartphone (20%) or a tablet computer (11%) to manage their personal finances.

While many workers think they will be able to stay in the workplace longer, Mathew Greenwald of Greenwald & Associates observed that some may be disappointed. “Nearly half of current retirees surveyed by the RCS report they left the workforce earlier than they planned for reasons beyond their control, such as health, or economic changes, such as job loss,” Greenwald said.

Remember, it’s never too late to start saving for your retirement, whether through contributions to a workplace-sponsored plan, such as a 401(k), a traditional IRA, and/or personal savings. Reviewing your retirement planning strategy regularly with a qualified financial professional is another important component for staying on track to reach your future goals. ■

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